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The question, however, remains: Is there good reason to believe that the adoption of such a course would have the effect of definitely fixing the value of the rupee, now become a subsidiary coin? The English precedent unquestionably favors the opinion that there is every reason for that belief. The rupee would, of course, though subsidiary, be unlimited legal tender; but so was the silver coinage of England in the eighteenth century, and so is the silver coinage of a great part of Europe now. This subsidiary coinage would, in the case of India, form practically the whole currency; but we know that it does that in the case of Java at present without any unsatisfactory result. The main ground for believing that the measure would be successful in definitely fixing the value of the rupee is this: that, under the new system, a state of things would be brought into existence in which the rupee circulation, owing to the fact that its being received in all payments due to government at a fixed ratio to gold, would be continually in process of being redeemed, to all intents, in gold. The revenue bears a proportion of about four-fifths to the total circulation, and that proportion would be directly redeemed annually. It is this virtual redemption in gold that, as Professor Laughlin remarks, in America maintains the value of silver and of the certificates based on it, which are not actually redeemable in gold, at a parity with United States notes which are, and the principle that is thus seen to operate in America would certainly not fail to operate similarly in India. As to the bank notes, they are promises to pay in rupees now, and should remain promises to pay in rupees still, with this difference that, if the parity of the rupee with gold were successfully maintained, they would, in effect, be precisely equivalent to promises to pay in gold.

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#### RESUMPTION OF SPECIE PAYMENTS IN AUSTRIA-HUNGARY.

Six years ago the Austrian government formed a plan for the ultimate resumption of specie payments, and the adoption of the single gold standard. Initiatory legislation was enacted in 1892; in 1894 a second series of laws was passed; this year the ministry has proposed to take the final steps.

The legal tender paper currency, which the pending laws will make

redeemable in gold, is of half a century's standing. In the stress of the revolution of 1848, when there were revolts in Hungary and Italy, risings in Bohemia, and barricades in the streets of Vienna, the National Bank was forced to suspend specie payments, and the imperial Exchequer resorted to the issue of inconvertible paper money.<sup>1</sup> Coin speedily disappeared from circulation, and the irredeemable currency depreciated until at one time in 1850 a paper gulden was worth in silver but two-thirds of its nominal value.<sup>2</sup> After defeating Sardinia and reducing the Hungarian rebellion, the government began in 1855 to prepare for resumption. September 28, 1858, the National Bank commenced again to pay in silver. But the specie standard was maintained only seven months. Becoming involved in the war of 1859 with Italy and France, the government borrowed so heavily of the bank that it had again to suspend, April 25, 1859. The paper money which had been practically at par in December fell in May as low as 65. With the return of peace the government once more commenced to reduce its indebtedness to the National Bank; the paper rose to 99 and the bank was on the eve of again resuming payments in silver, when the disastrous six weeks' war of 1866 with Prussia frustrated the plan, and led to fresh issues of government notes.

After 1866 the twice thwarted attempt to resume specie payments was not renewed until 1892. The paper currency consisted of notes issued by the government, and notes issued by the Austria-Hungarian Bank in about equal proportions. By the terms of the monetary treaty between Austria and Hungary there was a permanent circulation of

<sup>1</sup> On the history of the paper currency in Austria see *Denkschrift über das Papiergeldwesen der österreichisch-ungarischen Monarchie*. Verfasst im k. k. Finanzministerium. Wien (K. k. Hof- und Staatsdruckerei, 1892); and *Denkschrift über den Gang der Währungsfrage seit dem Jahre 1867*. Verfasst im k. k. Finanzministerium. Wien, 1892. A brief sketch is to be found in LAUGHLIN, *History of Bimetallism in the United States* (4th edition, N. Y., 1897), pp. 189-197.

<sup>2</sup> See *Statistische Tabellen zur Währungs-Frage der österreichisch-ungarischen Monarchie*. Verfasst im k. k. Finanzministerium, Wien, 1892; *Tabellen zur Währungs-Statistik*. Verfasst im k. k. Finanzministerium, Wien, 1893, and GRUBER, *Statistische Beiträge zur Frage der Währung der österreichisch-ungarischen Monarchie* (Jena, 1890). Detailed discussions of the fluctuations of the premium may be found in KAREL KRAMÁŘ, *Das Papiergeld in Oesterreich seit 1848* (Leipzig, 1886), chap. ii.; W. LESIGANG, "Die Ursachen des Agios und seine Schwankungen in Oesterreich," *Jahrbücher für National ökonomie und Statistik*, vol. xxvii. pp. 273-315; FOLDES-WEISZ, "Beiträge zur Frage über Ursachen und Wirkungen des Agios," *ibid*, vol. xxxviii.

312 million gulden unsecured state notes. Austria was responsible for 70 per cent. of this sum, or 218.4 million gulden, and Hungary for the remainder, 93.6 million gulden. In addition to this fixed sum of 312 million gulden of imperial paper money, Austria maintained a circulation of state notes for which it alone was responsible, varying in amount from 64 million gulden in 1872 to 4.5 million gulden in 1880, and rising again to 50.7 million gulden in 1891. The Austria-Hungarian Bank, whose notes furnished between 44 and 56 per cent. of the paper circulation, was perfectly solvent, its issues being protected by discounted paper and by a specie reserve averaging about  $33\frac{1}{3}$  per cent. But had the bank resumed, as it might have done, great embarrassment would have arisen from the inequality in the value of the two kinds of paper money—the bank notes restored to par, and the state notes still depreciated. The real obstacle to resumption, then, was the inability of the government to pay its notes in specie on demand.<sup>1</sup>

With the gradual economic development of the Empire, however, resumption became every year a more pressing question. As the "Motive" to the proposals of 1892 expressed it, the paper currency "bearing no definite relation to the metallic standards of other culture states gave rise to manifold difficulties and losses in commerce and trade, and might in the future expose the country to incalculable dangers."<sup>2</sup> Finally the government summoned an expert commission of inquiry, presided over by Professor Böhm Bawerk, to meet in Vienna in March 1892, to consider the best method of establishing a stable monetary system.<sup>3</sup>

After careful consideration the commission decided that gold was to be preferred as the standard of value in the new system of coinage above silver or a bimetallic scheme. In order to avoid in making the transition from paper to specie money any alteration in the standard of value—either a rise that would virtually increase debts, or a fall that would work injustice to creditors—it was decided to fix the value of the unit of the new coinage so as to correspond with that of the paper currency. A careful investigation showed that from 1879 to 1891 the paper

<sup>1</sup> G. v. LEONHARDT, *Handwörterbuch der Staatswissenschaften*, Jena, 1891, vol. ii. p. 103.

<sup>2</sup> Zu 436 der Beilagen zu den stenogr. Protokollen des Abgeordnetenhauses, xi. session, 1892, p. 1.

<sup>3</sup> *Stenographische Protokolle über die vom 8. bis 17. März 1892 abgehaltenen Sitzungen der nach Wien einberufenen Währungs-Enquête-Commission*. Wien, k. k. Hof- und Staatsdruckerei, 1892, 8vo. pp. v + 298.

gulden had had an average value of 2.100271 francs. Accordingly the "krone," as the new unit was called, which was to be legal tender for fifty kreuzer of the old money, was made to contain the same weight of gold as 1.050135 francs, or just one half the equivalent of a paper gulden.<sup>1</sup>

The laws enacted August 2, 1892, were based upon the work of this commission. They provided for an entirely new system of coinage, with gold as the standard and silver as subsidiary money. Compulsory reckoning in kronen instead of gulden, and definite provision for resumption were specifically declared to be subjects with which future legislation would deal. Meanwhile debtors were allowed to pay their obligations in the new gold coins, if they so desired, at the rate of two kronen for one gulden. As the first step toward the removal of the chief obstacle in the way of resumption, means were provided for the future redemption of the 312 million gulden state notes in circulation by authorizing a gold loan of 218.4 million gulden for Austria and 93.6 million gulden for Hungary, these sums representing the respective shares of the two countries in the joint paper-money debt. It was directed that the gold thus obtained be coined as rapidly as possible into twenty-kronen pieces of the new standard.<sup>2</sup>

In execution of this law the Austrian minister of finance easily secured, without disturbing the markets of the world, gold to the value of 112,317,257 gulden. Of this sum there had been coined up to February 9, 1894, 68,938,760 gulden, seventy-six kreuzer in pieces of twenty kronen. This furnished means for retiring a portion of the 312 million gulden fixed circulation of state notes. Accordingly, by a series of laws enacted July 9, 1894, the payment of 200 of the 312 millions was authorized. Of this sum of 200 million gulden 40 millions were to be paid in silver one-krone pieces obtained by recoinng old silver gulden. The remaining 160 millions were to be paid with the

<sup>1</sup> *Gesetz vom 2. August 1892, womit die Kronenwährung festgestellt wird*, article iv. Professor Carl Menger maintained that the actual gold value of the paper gulden was not quite so large as was assumed, and that the krone should have been made to weigh slightly less. Its value should have been equal to say 1.025 francs. See his *Der Übergang zur Goldwährung* (Wien, 1892), 8vo. pp. 36.

<sup>2</sup> The text of the most important sections of the coinage laws of 1892 is given in Appendix IV. § F. pp. 331-337, of LAUGHLIN'S *History of Bimetallism in the United States* (4th ed.) and in the *Quarterly Journal of Economics*, January 1893. See also CARL MENDER, "Die Valutaregulierung in Oesterreich-Ungarn," *Jahrbücher für National-ökonomie und Statistik*, vol. lviii. pp. 496 ff. and 641 ff., and vol. lix. p. 39 ff.

new twenty-kronen gold pieces, 70 per cent. of the expense being borne by Austria and 30 per cent. by Hungary. But, in order to make sure that the gold coin obtained with such care should remain in the country as a nucleus for the future specie circulation, the government was not to pay out 160 million gulden of gold coin in redemption to the holders of state notes, but to hand over that sum in gold to the Austria-Hungarian Bank, requiring it to pay the state notes in silver coin or in its own paper, and to retain the gold received from the public treasury as a part of its permanent metallic reserve. The result of the operation would be to retire from circulation 200 million gulden of state notes, replacing one-fifth of the sum with silver coin of the new standard and four-fifths with bank notes or silver gulden. Meanwhile, against the notes which it would issue in redemption of government paper, the bank would hold a reserve of 160 million gulden in twenty-kronen gold pieces.

It was directed by the law of 1894 that the 200 million gulden of the state notes should all be paid by the end of 1895. But it was not until two years later that the redemption was completed and the government in a position to take further steps for resuming specie payments. Early in 1898, however, the Austrian minister of finance laid before the Reichsrath a series of proposals for the final introduction of the new monetary system.<sup>1</sup>

The first of the proposed laws is concerned with the retirement of the remaining state notes. The payment of 200 millions under the law of 1894 left 112 millions still to be met—70 per cent. by Austria and 30 per cent. by Hungary. Article V provides that 80 millions shall be paid in ten-kronen notes of the Austria-Hungarian Bank and 32 millions in five-kronen silver pieces. As said, besides the 312 million unsecured state notes for which Austria and Hungary were jointly responsible, there has been in circulation a variable amount of paper money issued by the Austrian administration. Article II provides that whatever amount of these notes in excess of 112 millions is in circulation shall be paid by Austria alone. Thus all the paper money issued by the government will be withdrawn from circulation and destroyed. As soon as the 80 millions in bank notes and 32 millions in silver coin to pay the

<sup>1</sup> *Gesetzentwürfe betreffend die gänzliche Einlösung der Staatsnoten, die Ordnung der schwebenden Schuld in Partial-Hypothekaranweisungen, die Einführung der Kronenwährung als Landeswährung und die Verlängerung des Privilegiums der österr.-ungar. Bank* (Wien, 1898). I am indebted to the kindness of Herr Ministerialrath Dr. Gruber for copies of the ministerial proposals.

state notes are obtained, an order is to be issued fixing a date eighteen months in advance on which the state notes shall cease to be a legal tender, but allowing four and a half years more in which to present them for redemption. Specie payments, however, will not necessarily be resumed so soon. Under the charter of the Austria-Hungarian bank the provision requiring it to redeem its notes in coin is suspended only so long as the state notes have a forced circulation. Accordingly, when the state notes cease to be a legal tender, the bank would have to resume specie payments at once, whether the moment were favorable or not. To prevent this, an alteration is introduced into Article 111 of the bank charter whereby the date for resumption by the bank is left for future legislation to determine. The withdrawal of the state notes will leave the circulation composed of bank notes, silver gulden, silver one-kronen pieces, and subsidiary coins of nickel and bronze. It is not probable that the new gold coins will come into general circulation until the bank resumes.

The second law proposed makes an addition to the list of coins. The 112 million state notes to be paid consist almost entirely of five-gulden notes. Their withdrawal from circulation will leave a gap in the money system between the small and the large denominations, particularly until the ten-kronen gold pieces come into circulation. To fill this gap 32 million silver gulden will be recoinced into five-kronen pieces. By buying the silver from the bank with twenty-kronen gold pieces its gold reserve will be strengthened. The third proposed measure merely directs the coinage of the Austrian quota of the 32 million gulden.

By the fourth law recommended, the means are specified by which the 80 million bank notes for the redemption of so much of the 112 million state notes are to be secured. The Austrian minister of finance is directed to deposit 56 million gulden, and his Hungarian colleague 24 million gulden, in gold coin of the kronen standard with the Austria-Hungarian Bank, receiving in exchange bank notes of the denomination of ten kronen.

By similar deposits of 22.4 million gulden on the part of Austria and 9.6 millions on that of Hungary, the 32 millions of silver for coinage into five-kronen pieces to be used in paying the remnant of the 112 million state notes is to be obtained. The actual exchange of the 80 millions in bank notes and 32 millions in silver coin for the state notes is entrusted to the bank.

The sixth proposed law places 78.4 million gulden in gold coin of the kronen standard at the disposal of the Austrian minister of finance to be deposited as above directed with the Austria-Hungarian Bank. 59,159,470 gulden of this sum will be provided by the remaining balance of the gold loan authorized in 1892. The rest, 19,240,530 gulden can be met from the gold reserve in the treasury, which is more than sufficient for this purpose.

In order to increase the financial strength of the government the seventh proposal directs that the floating debt of 70 million gulden in the form of exchequer bills (*Partial-Hypothekaranweisungen*) be funded in  $3\frac{1}{2}$  per cent. bonds.

Under the next law, the gold krone becomes the legal standard of value in Austria-Hungary on January 1, 1899. From that day the accounts of the state, of banks, railways, and all corporations serving public purposes are to be reckoned in kronen and heller instead of gulden or florin and kreuzer. Contracts made after that date are to be payable in kronen except when otherwise expressly stipulated.

The ninth proposed measure refers to the debt due to the bank by Austria-Hungary. Originally this debt was 80 million gulden, but by the application of the share of the state in the profits of the bank it was reduced to 76,092,545 florin. Payment of 30 millions of this debt is considered necessary to strengthen the bank for resumption. As Hungary is at present unable to meet her quota, nine million gulden, the Austrian minister is directed to pay the whole sum from the gold reserve in the treasury. Hungary will be allowed to repay her share to Austria in fifty annual installments without interest. When the charter of the bank is renewed it will write off any excess above 30 million gulden of the debt of the state remaining after this 30 millions has been paid. The remaining 30 millions is to be non-interest-bearing and is not to be paid during the term of the renewed charter.

Directions are given in the next measure to the Austrian minister of finance for making an agreement with the Austria-Hungarian Bank in conformance with the foregoing.

Finally, the eleventh bill laid before the Reichsrath prolongs the exclusive privilege enjoyed by the Austria-Hungarian Bank of issuing circulating notes till the end of the year 1910. The bank's present charter expired December 31, 1897. As no legislation was then enacted upon the subject, an imperial decree was published extending the charter one year. In the present proposal for a new charter sev-



eral alterations are inserted, the most important of which give Hungary an equal share with Austria in the governmental control over the bank, extend the power of the government in the choice of bank officials, provide for a stricter supervision of all acts of the bank, and give to the administration the right to veto any measures deemed injurious to the state. By transferring 15 million gulden from the reserve fund, the capital of the bank is increased from 90 to 105 million gulden. A like sum of exchange is transferred from the reserve fund to the specie holdings—an alteration which, taken in connection with the increase of capital, raises the amount of notes which the bank can issue free of taxation under the terms of the charter, to 45 million gulden.

Unfortunately, the difficulties that are delaying the renewal of the compromise (*Ausgleich*) between Austria and Hungary make it uncertain how soon this ministerial program can be carried out.

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